

The African Development Bank Group Chief Economist Complex



Market Brief

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1. Market Commentary

1.1 Stock Markets

During the week of 11 – 15 October 2010, most African stock markets rallied alongside stock markets in Europe and the United States. The latter rose on expectations that the U.S. Federal Reserve would provide additional monetary stimulus in the near term. Among African stock markets, those in Nigeria and Mauritius led the winners, recording substantial appreciations of 5.5% and 4.1%, respectively. The stock markets in Uganda, Côte d'Ivoire, and South Africa registered moderate gains of between 1.4% and 2.5% while those in Ghana, Kenya, and Egypt posted marginal gains of less than 0.6%. In contrast, the stock market in Tunisia declined by 2.4%.

Equity Focus

Nigeria: The Nigeria Stock Exchange All-share Index rose by 5.5% over the week. The appreciation was led by the food, beverages, and tobacco subsector. On the other hand, trade volume increases were most prominent in the banking subsector. In particular, the shares of Access Bank, UBA, and First City Monument Bank were heavily traded.

Tunisia: The Tunis Stock Exchange Index fell by 2.4% over the week, continuing the previous week's decrease. The recent

declines of the Index reflected in part the planned replacement of the zero tax on export activity income with a 10% tax from January 1, 2011.

1.2 Commodity Markets

Crude Oil (Brent): The price of Brent crude oil fell by 1.7% to USD 81.30 per barrel over the week. The decline was driven by the U.S. Energy Department's report on a decrease in fuel consumption to the lowest level since November 2009 and a decline in the capacity utilization rate of refiners to 81.9%, i.e. the lowest level since March 2010, as units closed for maintenance before demand for the winter season picks up.

Commodities: Despite the decline of crude oil prices, the Standard & Poor's GSCI Index of 24 raw materials headed for an eighth straight weekly gain, the longest streak since 1996, on speculation that a weaker dollar will boost the appeal of metals, grains, and energy as alternative investments. Gold and tin climbed to record highs; silver rose to a 30-year high; and cotton reached an all-time high during the week.

1.3 Exchange Rates

The majority of African currencies strengthened against the US dollar, which slumped on speculation that the Federal Reserve will buy more assets to spur the U.S. economy.

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“In Kenya, Diamond Trust Bank, a commercial bank specializing in SME lending realized net profit of 16.2% over the third quarter of the year ...”

“In Botswana, the trade account swung into surplus for the first time in 20 months in June as sales of diamonds rose...”

Twenty-two African currencies, appreciated against the US dollar in the inter-bank foreign exchange markets. The largest appreciation of 3.2% was observed for the Zambia Kwacha, followed by the Sao Tomé & Príncipe Dobra and the South African Rand, which registered substantial gains of 2.5% and 1.3%, respectively. On the other hand, thirteen African currencies depreciated, with those of Sierra Leone, Tanzania, and Sudan posting substantial reductions in value ranging from 1.5% to 1.9% against the US dollar. Meanwhile, the currencies of Kenya, Egypt, Cape Verde, Rwanda, DRC, Djibouti, Guinea, and Ethiopia remained stable against the US dollar, fluctuating by less than $\pm 0.1\%$ over the week. As for year-to-date changes, the South African Rand stood out, recording the largest appreciation of 9.1% vis-à-vis the US dollar, mainly due to portfolio capital inflows through the bond markets. The inflows in the nine months to September this year exceeded USD 13 billion.

2. Regional Developments

Africa: An analysis from Frost & Sullivan, an annual renewable energy project tracker, forecasts that the African renewable energy (RE) market will experience exponential growth with governments in the region announcing new RE projects on a regular basis. The early projects include several wind projects in North Africa that will be operational in 2010. Besides, the off-grid solar power market in Sub-Saharan Africa is expected to grow at more than 10 % annually between 2009 and 2015. However, the Report argues that the slow pace of introducing renewable energy feed-in tariff laws and continued state monopoly utilities are major impediments to progress.

East Africa: Diamond Trust Bank (DTB), whose shareholders include the International Finance Corporation (IFC), has secured USD 26 million of long-term funding. The IFC expects the funds to enhance DTB's capacity to support the small and medium enterprise (SME) sector by providing long-term credits in Kenya and trade financing in Tanzania and Uganda. DTB Tanzania and

DTB Uganda signed separate trade finance guarantee agreements of USD 3 million each to increase the trade finance instruments issued on behalf of SMEs that import goods into East Africa. The bank's performance has been bolstered by the expansion and resilience of SMEs, which account for 70 % of its business. DTB Kenya's net profit rose by 16.2 % to KES 901 million (about \$11.2 million) over the third quarter of the year. DTB plans to continue expanding across East Africa, from the current 57 to nearly 70 branches by the end of the year and over 100 by 2013. The expansion of the bank stands in contrast to other commercial banks in Kenya whose net lending to households declined by KES 31.4 billion (about USD 387.5 million) in the year to August.

3. Countries in Focus

Angola: The Government forecasts the economy to grow by 4.5 % this year, a substantial reduction from their forecast three months ago of 9.7 %. This correction is in part due to the start of paying up to USD 9 billion of unpaid bills to foreign construction companies, of which the Government has paid USD 2.7 billion so far.

Botswana: The trade account swung into surplus for the first time in 20 months in June as sales of diamonds rose significantly. Apart from this positive development, Government Officials expect the economy to grow by about 4.5 % this year, significantly slower than the International Monetary Fund's estimate of 8.4 %.

Côte d'Ivoire: Aggreko, a provider of temporary power and temperature control services, has transferred a gas-fuelled 70 MW rental power plant to the Société de Gestion du Patrimoine du Secteur de l'Electricité (SOGEPÉ) and the Société d'Opération Ivoirienne d'Electricité (SOPIE). The power plant has been provided as a turn-key package, with Aggreko having designed, mobilized, and installed 90% of power capacity by June 2010, that is within two months of contract signature.

“In Rwanda, prices fell by 0.4 % year-on-year in September compared with a fall of 1.4 % in August ...”

“In Nigeria, the Government has approved the privatization of the USD 2.5 billion state telecommunications company, NITEL”

Liberia: Port operator APM Terminals, a unit of Danish shipping and oil group A.P. Moller-Maersk, announced the conclusion of a 25-year concession agreement to run the Port of Monrovia in Liberia. It expects the port's privatization to result in investment of USD 120 million in the facility over the course of the contract term.

Namibia: Namibia's commercial banks have agreed to cut lending costs by reducing the spread between their prime interest rates and the central bank's repo rate by 100 basis points to 3.75 percentage points, as demanded by the government. Namibia's main banks are local units of neighboring South Africa's four big lenders: Standard Bank, Nedbank, FirstRand, and FNB.

Nigeria: The Government has approved the privatization of the USD 2.5 billion state telecommunications company, NITEL. The winning bidder was the New Generation Telecommunications Consortium including a unit of China Unicom, Dubai-based Minerva, and a Nigerian firm, GiCell.

The Central Bank of Nigeria remarked that five or six of the Nigerian banks rescued in a USD 4 billion bailout last year would announce acquisition negotiations with potential suitors. It also expects that the state asset management company AMCON, set up to purchase non-performing loans and chase the recovery of bad loans, would begin purchasing assets in the next two to three weeks.

Rwanda: Consumer prices fell by 0.4% year-on-year in September compared with a fall of 1.4 % in August. Inflation in neighboring Kenya, Uganda and Tanzania has also been benign this year after food harvests rose following good rains.

The Government announced that the economy expanded by 9.4 % in the second quarter of 2010 from a year earlier, driven by 15 % growth in services, after slowing to 6.1 % in 2009 from 11.5 % in 2008.

Sierra Leone: The Government expects new low-tax industrial zones will boost local processing of its natural resources. The first

phase of the 54-acre Special Economic Zone at Newton outside the capital Freetown is scheduled for completion at the end of March 2011. The Newton site will initially focus on processing agricultural products. The Government plans at least three other zones at locations to be confirmed.

South Africa: Japan's Nippon Telegraph and Telephone Corp (NTT) secured its takeover of South Africa's *Dimension Data*, a multinational IT services provider, when holders of 93.4 % of the shares accepted its cash offer. NTT announced the USD 3.2 billion deal agreed in July in a move to increase its presence in emerging markets in Africa, South America and the Middle East.

4. Development Partnerships

World Bank-Tunisia: Tunisia has received a USD 206 million loans from the World Bank to fund water, environmental and job-creation projects.

EIB-AfDB-Cape Verde: The European Investment Bank and African Development Bank agreed to provide € 45million to design, build and operate onshore wind farms on four islands in the Cape Verde archipelago. The project will provide over 28MW of electricity generating capacity and help the island reach an ambitious target of ensuring that 25% of local power needs are provided from renewable energy sources by 2012 and 50% by 2020.

5. Summary

During the week of 11 – 15 October 2010, most African stock markets and the majority of the currencies rallied alongside the Euro. Favorable developments over the week include growth acceleration in Rwanda, a shift in the trade balance to a surplus in Botswana, the launch of renewable energy projects in Cape Verde, foreign direct investment following privatization of port infrastructure in Liberia, the near completion of the Special Economic Zone in Sierra Leone, and the imminent privatization of restructured banks in Nigeria. On the other hand, negative developments include downward adjustment of growth forecasts in Angola and Botswana.

Appendix Table 1: Stock market movements – Week ending on 15 October, 2010

Stock Markets							
Region/Country	Index Name	Index Code	Market Capitalization (USD, million) (15-10-2010)	Weekly % change (15-10-2010)		Year-to-date % Change	
				Week under review	Previous week	Dec 31 - Oct 15	
Côte d'Ivoire	BRVM Composite Index	BRVM CI	6,882	▲ 1.52	▼ -0.35	▲	19.9
Egypt*	CASE 30 Index	CASE30	19,419	▲ 0.00	▲ 3.69	▲	10.8
Ghana	Ghana All Share	GSE	13,650	▲ 0.61	▼ -3.71	▲	20.8
Kenya	Nairobi SE Index- NSE 20	NSE 20	14,893	▲ 0.12	▼ -0.34	▲	42.4
Mauritius	Mauritius AllShares	SEMDEX	5,476	▲ 4.09	▲ 2.72	▲	12.5
Morocco	Casa All Share Index	MASI	15,462	▲ 2.12	▲ 0.31	▲	16.0
Nigeria	NGSE All Share Index	NGSE	39,777	▲ 5.49	▲ 3.13	▲	20.4
South Africa	All Share Index	JALSH	724,840	▲ 1.41	▲ 1.30	▲	8.7
Tunisia	Tunis se Tnse Index STK	TUNINDEX	10,555	▼ -2.42	▼ -2.69	▲	25.6
Uganda*	Uganda SE All Share index	USE	5,106.3	▲ 2.50	▲ 1.42	▲	58.6
Others							
USA	Dow Jones Industrial	DJ Index	3,459,268	▲ 0.51	▲ 3.23	▲	6.1
France	CAC 40 Index	CAC40	901,959	▲ 1.71	▲ 1.83	▼	-2.8
Japan	Nikkei 225 Index	N225	2,280,093	▼ -0.92	▲ 1.24	▼	-9.9

* Value at end of 14 October, 2010

Appendix Table 2: Exchange rate movements – Week ending on 15 October, 2010

Exchange Rates (currency per US\$)								
Region/Country	Currency Name	Currency Code	Weekly % change (15-10-2010)		Year-to-date % Change			
			Week under review	Previous week	Dec 31 -Oct 15			
Africa								
Algeria	Algerian Dinar	DZD	▼	-0.85	▲	1.69	▼	-1.6
Angola	New Kwanza	AON	▼	-0.19	▼	-0.34	▼	-3.3
Botswana	Pula	BWP	▲	0.93	▲	1.42	▲	3.7
Burundi	Burundi Franc	BIF	▼	-0.14	▼	-0.27	▲	0.9
Cape Verde	Escudo	CVE	▲	0.08	▲	3.26	▼	-6.5
Comoros	Comoros Franc	KMF	▲	0.25	▲	2.06	▼	-2.7
Congo. Dem. Rep. of	Congolese Franc	CDF	▲	0.01	▼	-1.30	▼	-11.7
Djibouti	Djibouti Franc	DJF	▲	0.00	▼	-0.61	▼	-2.4
Egypt	Egyptian Pound	EGP	▲	0.09	▼	-0.09	▼	-3.6
Ethiopia	Birr	ETB	▼	-0.08	▼	-0.02	▼	-22.6
Gambia. The	Gambian Dalasi	GMD	▼	-0.69	▼	-5.38	▼	-6.9
Ghana	New Cedi	GHS	▼	-0.62	▲	0.31	▲	0.5
Guinea	Guinea Franc	GNF	▼	-0.04	▼	-9.33	▼	-29.7
Kenya	Kenyan Shilling	KES	▲	0.09	▲	0.32	▼	-5.8
Liberia	Liberian Dollar	LRD	▲	0.69	▲	0.00	▼	-3.4
Libya	Libyan Dinar	LYD	▼	-1.84	▲	1.61	▼	-1.0
Madagascar	Ariary	MGA	▲	0.15	▲	0.80	▼	-2.0
Malawi	Kwacha	MWK	▼	-0.22	▲	0.25	▼	-3.1
Mauritania	Ouguiya	MRO	▲	0.87	▲	0.52	▼	-6.8
Mauritius	Mauritius Rupee	MUR	▲	0.79	▲	0.86	▲	2.0
Morocco	Dirham	MAD	▲	0.65	▲	2.05	▼	-1.4
Mozambique	New Metical	MZN	▲	0.28	▲	0.41	▼	-23.7
Nigeria	Naira	NGN	▲	0.28	▲	2.00	▼	-0.5
Rwanda	Rwandan Franc	RWF	▲	0.02	▼	-0.16	▼	-2.4
São Tomé & Príncipe	Dobra	STD	▲	2.48	▲	0.01	▼	-9.9
Seychelles	Seychelles Rupee	SCR	▲	0.95	▼	-0.03	▼	-8.5
Sierra Leone	Leone	SLL	▼	-1.93	▼	-1.72	▼	-4.8
Somalia	Somali Shilling	SOS	▲	0.11	▼	-0.75	▼	-7.3
South Africa	Rand	ZAR	▲	1.29	▲	1.47	▲	9.1
Sudan	Sudanese Pound	SDG	▼	-1.47	▲	1.51	▼	-2.0
Tanzania	Tanzanian Shilling	TZS	▼	-1.60	▲	0.38	▼	-11.6
Tunisia	Tunisian Dinar	TND	▲	0.70	▲	1.96	▼	-4.3
Uganda	Uganda Shilling	UGX	▼	-0.52	▼	-0.46	▼	-15.5
Zambia	Zambian Kwacha	ZMK	▲	3.23	▲	1.84	▲	1.4
CFA zone Countries	CFA Franc	XOF	▲	0.67	▲	2.29	▼	-1.9
Others								
Europe	Euro	EUR	▲	0.94	▲	2.34	▼	-1.8
Japan	Yen	JPY	▲	1.44	▲	1.14	▲	13.4

Source: AfDB Statistics Department, October 2010